NCA
VOC FOR PGM/FN
BACKGROUNDER NO. 5-5804 MAY 9, 1978
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CHINA OIL FIND

ANNCR:

A CHINESE PROVINCIAL RADIO REPORTS THAT MAJOR OIL AND NATURAL GAS DEPOSITS HAVE BEEN DISCOVERED OFF CHINA'S SOUTHERN COAST. VOA'S JOSEPH SULLIVAN HAS DETAILS IN THIS BACKGROUND REPORT.

VOICE:

THE NEW OIL DISCOVERIES WERE REPORTED FROM CHINA'S KWANGTUNG PROVINCE, WHICH BORDERS HONG KONG. THE BROADCAST GAVE NO DETAILS ABOUT THE OIL FINDS AND DID NOT SAY WHERE THEY HAD BEEN MADE. BUT OBSERVERS IN HONG KONG SAY THAT CHINESE CREWS HAVE BEEN DRILLING IN SEVERAL LOCATIONS OFF CHINA'S SOUTHERN COAST, INCLUDING THE GULF OF TONKIN, AROUND HAINAN ISLAND, AND IN THE PEARL RIVER ESTUARY BELOW CANTON.

THERE IS NO DENYING THAT THE PEOPLE'S REPUBLIC OF CHINA HAS PLENTY OF OIL...AND THE PEKING GOVERNMENT SEEMS DETERMINED TO EXPLOIT IT TO THE FULLEST. IN THE EARLY 1960'S, CHINA IMPORTED SOME TEN MILLION TONS OF PETROLEUM A YEAR -- LARGELY FROM THE SOVIET UNION. HOWEVER, THE SITUATION CHANGED DRAMATICALLY IN THE LATE 60'S WITH THE DISCOVERY OF MAJOR OIL DEPOSITS IN NORTHEAST CHINA. CHINA'S OIL PRODUCTION LAST YEAR EXCEEDED NINETY MILLION TONS -- PUTTING IT IN A TIE WITH INDONESIA FOR TENTH PLACE AMONG THE WORLD'S OIL PRODUCERS. BUT, OF THIS, ONLY ABOUT TEN MILLION TONS WAS EXPORTED -- MOSTLY TO JAPAN.

THE REPORTED OIL FIND IN THE SOUTH CHINA SEA COINCIDES WITH A SIZABLE INCREASE IN CHINESE PURCHASES OF AMERICAN OFFSHORE DRILLING TECHNOLOGY. THE PURCHASES INCLUDE TWO FIXED PLATFORMS

FOR OFFSHORE OIL PRODUCTION AND A MOVABLE EXPLORATORY DRILLING RIG. AND THERE ARE REPORTS THAT THE CHINESE ARE NEGOTIATING FOR AN INTEGRATED PRODUCTION SYSTEM LARGE ENOUGH TO HANDLE THE EXPLORATION OF AN ENTIRE OFFSHORE OILFIELD.

FROM ALL EVIDENCE, PEKING HAS MOVED SLOWLY TO EXPLOIT CHINA'S OFFSHORE OIL RESERVES. A STUDY PREPARED BY THE CENTRAL INTELLIGENCE AGENCY LAST YEAR NOTED THAT WITHIN A DECADE OR SO, CONTINUOUSLY EXPANDING DOMESTIC DEMAND COULD ABSORB CHINA'S TOTAL OIL PRODUCTION CAPACITY, LEAVING NOTHING TO EXPORT UNLESS OFSHORE DEPOSITS ARE FOUND AND EXPLOITED MUCH MORE RAPIDLY. THE REPORT ALSO SAID THAT SURVEYS OF CHINA'S OFFSHORE RESERVES WERE DAMPENING EARLIER HOPES THAT THE EASTERN CONTINENTAL SHELF MIGHT HOUSE ONE OF THE WORLD'S MORE PROLIFIC OIL AND GAS RESERVES. THIS PERHAPS HELPS TO EXPLAIN THE APPARENT SHIFT IN DRILLING ACTIVITY TO THE SOUTH CHINA SEA AREA.

PEKING IS ALSO ENGAGED IN A MAJOR EFFORT TO MODERNIZE CHINA'S PETROLEUM INDUSTRY AND OIL HANDLING FACILITIES. BUT OBSERVERS NOTE THAT CHINA MUST ACCELERATE ITS SALE OF OIL ABROAD IN ORDER TO OBTAIN ENOUGH FOREIGN EXCHANGE FOR BOTH OIL HANDLING FACILITIES AND DRILLING EQUIPMENT. IT'S ESTIMATED THAT PIPELINES AND RIGS NECESSARY TO DOUBLE CHINA'S CURRENT OIL PRODUCTION WOULD COST AS MUCH AS FOUR THOUSAND MILLION DOLLARS. AT THAT RATE, CHINA WOULD HAVE TO EXPORT MORE THAN FOUR TIMES AS MUCH OIL AS IT NOW EXPORTS TO EARN ENOUGH FOREIGN EXCHANGE FOR SUCH PURCHASES.

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